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AUG 6 1956

MEMORANDUM FOR: The Secretary of State

SUBJECT : Afghanistan

1. Afghanistan's economic dependence on the USSR has in the last eight months expanded to the point where, if the present trend continues, the Soviet Union will probably be able within the next few years to influence effectively Afghan political as well as economic policy. The basic cause of closer Afghan-Soviet relations is Afghan prime minister Daud's conviction that only from the USSR can he obtain the large-scale economic assistance required for the rapid modernization of his country and the political and military support to make his dream of Pushtoonistan a reality. Daud now appears to be stronger than ever—both internally and in regard to his bargaining position with Pakistan.

2. Recent completion of contracts for Soviet construction of ten development projects in all parts of Afghanistan, extensive Afghan use of the transit route through the USSR, reported shipment of almost half of Afghanistan's total exports to the USSR, and Afghan receipt of Soviet and probably Czech arms are evidence of the closeness of current Afghan-Soviet relations.

3. Kabul continues to maintain contact with the West—as in the case of the \$14,500,000 aviation agreement recently signed with the United States—and Daud will probably continue to be susceptible to Western proposals which would give him some protection against an eventual Soviet takeover. However, the overall trend of Afghan policy at the present is clearly toward closer relations with the Soviet bloc.

4. The Pakistanis and Iranians have for some time been convinced it is impossible to do business with Daud.

This is the situation in which Pakistani President Mirza's visit to Kabul will take place between 7 and 11 August.

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